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MEMORANDUM FOR: Deputy Director for Support

SUBJECT : Definition of Unfunded Liability as Used in Proposed  
Amendment to the CIA Retirement Act

1. This memorandum is to supplement our telephone conversation on the above subject to more fully explain the nature of a potential question by the Department of the Treasury concerning the subject definition.

2. The term "unfunded liability" as applied to retirement funds in actuarial parlance represents the measure of the shortfall in funds on hand required to fully satisfy benefits to be paid to existing participants, annuitants and survivors thereof based upon service performed through the date of the valuation (past service). The definitions of unfunded liability as stated in the recent amendments of the Civil Service Retirement Act and the Foreign Service Retirement Act on which our proposed legislation is patterned do not conform with this concept. Instead, those definitions result in increasing the unfunded liability to also include the shortfall between the present value of benefits to be paid to existing eligibles based upon future service and the present value of deductions from employee salaries and Agency contributions for such future service. For reasons unknown to us, Treasury has not previously questioned the definitions as used in previous legislation.

3. The impact of the question is illustrated in Tabs A and B attached. Specifically, Tab A represents the balance sheet for the CIA Retirement system valuation as of 31 December 1968 which is now being completed by Mr. Kroll. Item 6, "Excess of Liabilities over Assets" totaling [redacted] is the unfunded liability as of 31 December 1968 in the classic actuarial sense. The proposed statutory definition does not require recognition of the present value of estimated future appropriation requirements, shown as item 5.b., "At 13.87% by appropriation," totaling [redacted] Thus if unfunded liability was computed on the basis of the proposed statutory definition, item 5.b. would not represent a proper entry on the balance sheet and the resulting unfunded liability would increase to a total of [redacted]

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4. For your additional information, there is attached as Tab B an excerpt from the proposed amendment to the CIA Retirement Act reflecting the proposed definition of unfunded liability, adjusted to reflect the substance of correcting language contemplated by Treasury as we understand it.

5. Aside from the technical aspects of the point, in the practical sense application of Treasury's position would result in annual payment by Treasury of interest calculated on [redacted] rather than [redacted]. Our fund would then realize only about half as much from Treasury for this purpose. The difference would, of course, increase unfunded liability (assuming no change in rate of other contributions) on subsequent evaluations and thus result in increasing interest payments. Long term, it seems clear the fund will require additional input either from Treasury or through specific appropriation. I feel, at the moment, in the pragmatic sense, it makes little difference to us whether Treasury influences a change in the definition.

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6. The interpretation we have placed on Treasury's position is based upon informal discussions with Mr. Kroll. He did not indicate to us what position Treasury will take but we feel they will comment along the lines indicated.

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[redacted]  
Director of Finance

Attachments  
Tabs A & B

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